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MEMORANDUM
Arizona Corporation Commission
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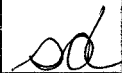
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TO: THE COMMISSION

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FROM: Utilities Division

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DATE: December 1, 1998

RE: IN THE MATTER OF THE FILING BY CITIZENS UTILITIES COMPANY OF
UNBUNDLED AND STANDARD OFFER SERVICE TARIFFS PURSUANT TO
A.A.C. R14-2-1606 (DOCKET NO. E-01032C-97-0774)

On December 31, 1997, Citizens Utilities Company (Citizens, CUC or Company) filed its unbundled and standard offer service tariffs pursuant to A.A.C. R14-2-1606. In this filing, the Company priced electric service elements such as transmission and distribution. The Company filed standard offer tariffs, which increase, decrease, and change rates for various customer classes (residential, small general, etc.). CUC also submitted information and requested a system benefits charge.

Effective December 26, 1996, the Commission adopted rules governing the parameters of retail electric competition. Pursuant to A.A.C. R14-2-1606(C), each incumbent utility must file Unbundled Service Tariffs to provide the following services to all eligible purchasers on a nondiscriminatory basis: Distribution service; Meter and meter reading service; Billing and collection service; Open access transmission service; Ancillary services; Information services; and Other ancillary services necessary for safe and reliable system operation. Pursuant to A.A.C. R14-2-1606(B), each incumbent utility may also file proposed tariffs to provide standard offer bundled service.

Decision No. 60575, dated January 14, 1998, suspended this filing until May 29, 1998. Decision No. 60910, dated May 22, 1998, suspended this filing until November 25, 1998. In a letter dated November 13, 1998, the Company agreed to delay the implementation of its Unbundled Services Tariffs and System Benefits Charge, which were filed on December 31, 1997 until December 10, 1998.

Staff's concern with the Company's unbundled tariffs as filed on December 31, 1997 was that they would result in a disincentive for certain customers to make the competitive choice versus standard offer. This disincentive was primarily the result of higher fixed charges in the unbundled tariffs than are in the Company's current tariffs. CUC's filing also phased in changes (increases and decreases) to Standard Offer tariffs.

As a result of discussions with Staff, the Company and Staff have developed a Summary of Settlement Terms (Settlement Terms) dated November 30, 1998. The major provisions of those Settlement Terms are detailed below.

For 1999, Citizens' unbundled and standard offer rates shall be designed so that they are essentially revenue neutral; that is, there will be no re-allocation of revenue responsibility between rate classes nor adoption of the rate design changes proposed in Citizens' original Unbundled Rates filing, with the following exceptions:

- a. the Dusk-to-Dawn Lighting Service rate design will be modified to better reflect actual lighting energy usage by fixture type;
- b. the demand ratchet for the Large Power Service Rates will be lowered to 80%.

The basis for the unbundled and standard offer rates shall be the cost of service presented in response to Staff data request BA-73.

The costs of Citizens' Valencia facilities shall be reflected in the revenue requirements underlying the rates for distribution service. If the Valencia facilities are no longer needed to support local transmission reliability, or other significant operating changes occur, Citizens will meet with Staff to determine if and how its rates should be revised to account for the changes that have occurred.

Citizens may file a revenue-neutral rate design proposal in 1999 based on more current customer load and usage data which reflects the following principles of cost allocation:

- a. generation capacity costs will be allocated using the four (4) Coincident Peak (CP) and average method;
- b. most distribution capacity costs will be allocated using class Non-Coincident Peaks (NCP);
- c. load data will conform to the criteria described in the attached Appendix A.

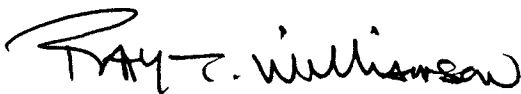
Citizens' 1999 rate filing will also include the following principles:

- a. a redistribution of costs among rate classes to achieve a movement of at least 50 percent of the way toward equalized rates of return;
- b. the use of a rate phase-in process for all customer classes with annual rate changes over a multi-year period, if necessary, to insure that no customer (including zero-use) will experience a rate increase of more than 7% in any year;

- c. the adoption of two-tier pricing for transmission and distribution services for Residential and Small General Service rates with a Customer Charge, Head Block and Tail Block.
- d. an Unbundled Interruptible Service Rate based on removal of production demand, transmission, and sub-transmission-related costs from firm LGS rates;
- e. a revenue-neutral re-design of the Large Power Service rate that allows recovery of lost revenue from known and expected conversions to 69 kV service; and
- f. the equalization of Residential rates between Mohave and Santa Cruz counties.
- g. the equalization of Small Commercial rates between Mohave and Santa Cruz counties.

Staff will accept the results of the cost of service study for rate design purposes, and the other rate principles above, if the study adheres to the above criteria. The load data should conform to the criteria described in the Appendix A attached to the Settlement Terms. (See attachment)

In conclusion, Staff believes the Settlement Terms are in the public interest and should be approved because the Company has agreed to unbundle its current tariffs thereby removing the disincentive for certain customers to make the competitive choice versus standard offer that existed in the Company's December 31, 1997 filing. The Company has agreed to revise its tariffs in accordance with the Settlement Terms on or before December 7, 1998. Staff further recommends the Company's proposed System Benefits Charge with its request to include the CARE low income program expenditures be approved.



Ray T. Williamson
Acting Director
Utilities Division

RTW:JVW:djg/PAB

ORIGINATOR: John V. Wallace

Appendix A

Guidelines For Updating Load Research

Since it is not possible for Citizens to update its load research program in a timely fashion, the Company needs to correct the deficiencies in its filed allocated cost of service study using surrogate load research data from other sources. The Company should use the alternate load research data in order to check the accuracy of its own data, and supplement it where appropriate. At a minimum, the Company should incorporate the following in its unbundled rate design:

1. The Company should prepare a statement on the applicability of the alternate load research data by comparing the load characteristics of the target classes, for instance, similar average customer size, similar climate (for classes with weather sensitive end uses such as air conditioning), and similar time of the system peak. The Company should also describe the load research accuracy and methods employed by the utility(ies) which developed the load research data.
2. The Company should begin with its own billing data (kWh, kW or kVA where applicable) and adjust the data if necessary to the time frame of the alternate data. The Company should adjust its billing data as appropriate, given its knowledge of the timing of its meter reading and billing. The Company should also explain how it estimated the consumption of non-metered classes, e.g. hours of darkness for street lighting classes.
3. The Company should apply the coincidence factors of the alternate load research data, or a ratio analysis, to develop estimates of class peak (NCP), system peak (CP) and maximum customer demands (MCD) at the customer level. The Company should adjust the coincidence factors or ratios as it deems appropriate based on billing data and on the older load research data, where class definitions have not changed.
4. The Company should adjust the CP, NCP and MCD for each class to the generator level by applying loss factors. The Company should state the source of the loss factors it utilizes. Next, the sum of the CP's should be compared to the actual system monthly peaks, and adjusted if necessary on a reasonable basis (excluding deterministic loads such as hourly metered classes and street lighting classes.)
5. The Company should then compare the resulting class allocations to those in its initial filing. The Company should state for which classes it will use the allocators based on the surrogate data.

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 JIM IRVIN
Commissioner - Chairman
3 RENZ D. JENNINGS
Commissioner
4 CARL J. KUNASEK
Commissioner
5

6 IN THE MATTER OF THE FILING BY)
CITIZENS UTILITIES COMPANY)
7 OF UNBUNDLED AND STANDARD)
OFFER SERVICE TARIFFS)
8 PURSUANT TO A.A.C. R14-2-1606)
9 _____)

DOCKET NO. E-01032C-97-0774

DECISION NO. _____

ORDER

10 Open Meeting
December 10 and 11, 1998
11 Phoenix, Arizona

12 BY THE COMMISSION:

13 FINDINGS OF FACT

14 1. Citizens Utilities Company (Citizens, CUC or Company) is certified to provide
15 electric service as a public service corporation in the State of Arizona.

16 2. On December 31, 1997, Citizens Utilities Company filed its unbundled and
17 standard offer service tariffs pursuant to A.A.C. R14-2-1606. In this filing, the Company priced
18 electric service elements such as transmission and distribution. The Company also filed standard
19 offer tariffs which increase, decrease and change rates for various customer classes (residential,
20 small general, etc.). CUC also submitted information and requested a system benefits charge.

21 3. Effective December 26, 1996, the Commission adopted rules governing the
22 parameters of retail electric competition. Pursuant to A.A.C. R14-2-1606(C), each incumbent
23 utility must file Unbundled Service Tariffs to provide the following services to all eligible
24 purchasers on a nondiscriminatory basis: Distribution service; Meter and meter reading service;
25 Billing and collection service; Open access transmission service; Ancillary services; Information
26 services; and Other ancillary services necessary for safe and reliable system operation. Pursuant
27 to A.A.C. R14-2-1606(B), each incumbent utility may also file proposed tariffs to provide
28 standard offer bundled service.

1 4. Decision No. 60575, dated January 14, 1998, suspended this filing until May 29,
2 1998. Decision No. 60910, dated May 22, 1998, suspended this filing until November 25, 1998.
3 In a letter dated November 13, 1998, the Company agreed to delay the implementation of its
4 Unbundled Services Tariffs and System Benefits Charge, which were filed on December 31,
5 1997 until December 10, 1998.

6 5. Staff's concern with the Company's unbundled tariffs as filed on December 31,
7 1997 was that they would result in a disincentive for certain customers to make the competitive
8 choice versus standard offer. This disincentive was primarily the result of higher fixed charges
9 in the unbundled tariffs than are in the Company's current tariffs. CUC's filing also phased in
10 changes (increases and decreases) to Standard Offer tariffs.

11 6. As a result of discussions with Staff, the Company and Staff developed a
12 Summary of Settlement Terms (Settlement Terms) dated November 30, 1998.

13 7. According to the Settlement Terms, for 1999, the Citizens' unbundled and
14 standard offer rates shall be designed so that they are essentially revenue neutral; that is, there
15 will be no re-allocation of revenue responsibility between rate classes nor adoption of the rate
16 design changes proposed in Citizens' original Unbundled Rates filing, with the following
17 exceptions:

- 18 a. the Dusk-to-Dawn Lighting Service rate design will be modified to better reflect
19 actual lighting energy usage by fixture type;
20 b. the demand ratchet for the Large Power Service Rates will be
21 lowered to 80%.

22 8. The Settlement Terms specify the basis for the unbundled and standard offer rates
23 shall be the cost of service presented in response to Staff data request BA-73.

24 9. According to the Settlement Terms, the costs of Citizens' Valencia facilities shall
25 be reflected in revenue requirements underlying the rates for distribution service. If the Valencia
26 facilities are no longer needed to support local transmission reliability, or other significant
27 operating changes occur, Citizens will meet with Staff to determine if and how its rates should be
28 revised to account for the changes that have occurred.

1 10. The Settlement Terms state that Citizens may file a revenue-neutral rate design
2 proposal in 1999 based on more current customer load and usage data which reflects the
3 following principles of cost allocation:

- 4 a. generation capacity costs will be allocated using the four (4)
5 Coincident Peak (CP) and average method;
- 6 b. most distribution capacity costs will be allocated using class Non-
7 Coincident Peaks (NCP);
- 8 c. load data will conform to the criteria described in the attached
9 Appendix A.

10 11. According to the Settlement Terms, Citizens' 1999 rate filing will also include the
11 following principles:

- 12 a. a redistribution of costs among rate classes to achieve a movement
13 of at least 50 percent of the way toward equalized rates of return;
- 14 b. the use of a rate phase-in process for all customer classes with
15 annual rate changes over an appropriate multi-year period, if
16 necessary, to insure that no customer (including zero-use) will
17 experience a rate increase of more than 7 percent in any year;
- 18 c. the adoption of two-tier pricing for transmission and distribution
19 services for Residential and Small General Service rates with a
20 Customer Charge, Head Block and Tail Block.
- 21 d. an Unbundled Interruptible Service Rate based on removal of
22 production demand, transmission, and sub-transmission-related
23 costs from firm LGS rates;
- 24 e. a revenue-neutral re-design of the Large Power Service rate that
25 allows recovery of lost revenue from known and expected
26 conversions to 69 kV service; and
- 27 f. the equalization of Residential rates between Mohave and Santa
28 Cruz counties.

g. the equalization of Small Commercial rates between Mohave and Santa Cruz counties.

12. Staff will accept the results of the cost of service study for rate design purposes, and the other rate principles above, if the study adheres to the above criteria. The load data should conform to the criteria described in the Appendix A attached to the Settlement Terms.

13. Staff believes the Settlement Terms are in the public interest and should be approved because the Company has agreed to unbundle its current tariffs thereby removing the disincentive for certain customers to make the competitive choice versus standard offer that existed in the Company's December 31, 1997 filing. The Company has agreed to revise its tariffs in accordance with the Settlement Terms on or before December 7, 1998.

14. Staff further recommends the Company's proposed System Benefits Charge with its request to include the CARE low income program expenditures be approved.

CONCLUSIONS OF LAW

1. CUC is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over CUC and over the subject matter of the application.

3. The Commission, having reviewed the Summary of Settlement Terms developed by Staff and CUC, the revised tariff pages in accordance with the Settlement Terms (copies of which are contained in the Commission tariff files) and Staff's Memorandum dated December 1, 1998, concludes that the Settlement Terms and revised tariffs are reasonable and equitable and are therefore in the public interest.

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ORDER

THEREFORE, IT IS ORDERED that the Settlement Terms and revised tariffs be and hereby are approved.

IT IS FURTHER ORDERED that CUC's current tariffs shall be used as the standard offer tariffs.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION

COMMISSIONER - CHAIRMAN

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JACK ROSE, Executive Secretary of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this ____ day of _____ 1998.

JACK ROSE
Executive Secretary

DISSENT _____

RTW:JVW:djg/PAB